MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BBF2124 – FINANCIAL MANAGEMENT II

(All sections / Groups)

28 OCTOBER 2017
2.30 p.m – 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages with 4 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given .
3. Please write all your answers in the Answer Booklet provided.

INSTRUCTION: ANSWER ALL QUESTIONS.

QUESTION 1

Bezza Ria is evaluating three different machines to be used by the company. All three of the machines are equally risky. The cost of capital of Bezza Ria is 6.5%. Based on the following information, recommend the best machine to be used by the company.

	Hyper	Hytech	Hymax
Initial investment	RM95,000	RM60,000	RM115,000
Year	Cash inflows (RM)		
1	15,000	18,000	45,000
2	20,000	35,000	-15,500
3	20,000	40,000	8,500
4	30,000	-	43,000
5	25,000	-	60,500
6	20,000	-	-

(15 marks)

(Total 15 marks)

QUESTION 2

i) Discuss "Bird in the hand theory" on the payment of dividends.

(5 marks)

ii) Gigantic Co. has a current capital structure consisting of RM155,000 of 15% debt and 3,000 shares of common stock. The tax rate is 40%.

(a) Determine the earnings per share (EPS) when EBIT is RM70,000 and RM90,000.

(6 marks)

(b) Calculate the degree of financial leverage (DFL) using EBIT of RM70,000 as a base.

(2 marks)

(c) Comment on Gigantic's DFL?

(2 marks)

iii) The company with the common equity accounts shown here has declared a 25 percent stock dividend at a time when the market value of its stock RM28 per share.

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Common stock (300,000 shares at RM1 par)	RM300,000
Paid-in capital in excess of par	8,100,000
Retained earnings	3,000,000
Total stockholders' equity	RM11,400,000

What effects on the equity accounts will the distribution of the stock dividend have?

(5 marks)

(Total 20 marks)

QUESTION 3

i) You have been appointed as a new Strategist Officer of Star Media Group Berhad; a public listed corporation that involve in a media related industry. In a move to enhance the value of the corporation, the management requires you to suggest an appropriate merger activity. Propose a suitable merger for Star Media based on the following mechanisms:

(a) Horizontal merger (5 marks)
(b) Vertical merger (5 marks)
(c) Congeneric merger (5 marks)
(d) Conglomerate merger (5 marks)

ii) Discuss how differing inflation rates between Malaysia and Hong Kong affect their exchange rate over long term.

(10 marks)

(Total 30 marks)

QUESTION 4

i) What are the SIX (6) advantages and FOUR (4) disadvantages of leasing?

(10 marks)

ii) Discuss the effects of convertibles and other contingent securities on firm's earnings per share (EPS)? (5 marks)

iii) Discuss the characteristics and the role of options in hedging activities by company.

(8 marks)

Continued...

iv) Ahmad is considering investing in a RM1,000-par-value bond with 19 years until maturity and a 13% annual coupon interest rate. The bond has 10 warrants attached for the purchase of common stock. The theoretical value of each warrant is RM10. The interest rate on straight bond with similar risk is currently at 14%.

(a) Compute the straight value of the bond.

(5 marks)

(b) Explain and compute the implied price of each warrants attached to the bond.

(5 marks)

(c) Would you recommend that Ahmad invest in this bond? Explain.

(2 marks)

(Total 35 marks)

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